



U.S. Department of Agriculture  
Office of Inspector General  
Western Region  
Audit Report

RISK MANAGEMENT AGENCY  
INDEMNITY PAYMENTS TO PRUNE  
PRODUCERS IN CALIFORNIA –  
PRODUCER A



Report No.  
05099-3-SF  
March 2001



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20250



DATE: March 30, 2001

REPLY TO

ATTN OF: 05099-3-SF

SUBJECT: Indemnity Payments to Prune Producers in California –  
Producer A

TO: Phyllis Honor  
Acting Administrator  
Risk Management Agency

ATTN: Garland Westmoreland  
Deputy Administrator  
Risk Compliance

This report presents the results of our audit of Risk Management Agency (RMA) indemnity payments made to a prune producer in California. Our objective was to resolve production discrepancies that we identified for six producers during our survey of prune production in California for 1997 through 1999. This report covers one of the six producers, whom we are identifying as “producer A.” When filing an insurance claim for 1998, producer A did not report 3.4 tons of prune production to the insurance provider which resulted in an overpayment to the producer of \$2,142.

## **BACKGROUND**

The Federal Agriculture Improvement and Reform Act of 1996 established RMA. RMA is responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act of 1980, and other programs designed to manage risk and support farm income. FCIC provides crop insurance through a network of approved private insurance companies that are reinsured by FCIC. With the implementation of the single delivery system in 1998, these companies have sold and serviced all crop insurance policies that insure producers against losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease.

A producer suffering an insured loss reports the loss to his insurance provider. For the insurance provider to determine the amount of the loss, the producer must show the insurance provider proof of his production. Prune producers generally use copies of

## **AUDIT REPORT**

their "Inspection Report And Certification" Form (form P-1) as evidence of their production.

The insurance provider is responsible for verifying that the production amounts reported by the producer are correct. If the amount of production is less than the guaranteed level of production, per the insurance policy, the producer is entitled to an indemnity, i.e., a reimbursement against loss or damage. This is calculated by multiplying the production loss amount by the price elected by the producer.

In California, the Dried Fruit Association (an independent third party) inspects the prunes and generates the form P-1's. After the prunes have been dried and delivered to a packinghouse, the Dried Fruit Association inspects a sample from each lot and determines its weight, size, and quality. The inspection results are reported on the form P-1 and distributed to the producer, handler, and the Prune Marketing Committee (PMC). PMC maintains records for all dried fruit production in California.

## **OBJECTIVE**

Our objective was to resolve the discrepancies identified between the production reported to PMC and the production reported by producer A to the insurance provider.

## **SCOPE**

During the survey phase of our audit, we looked at concerns about the inaccurate reporting of production by prune producers, which could be, among other things, an indicator of shifting production to increase indemnities. We limited our review to California producers because California prune orchards produce 99 percent of U.S. production. We selected a judgmental sample of 20 producers to review based on the following criteria: (1) the policy had multiple units or parcels of land (which would allow shifting of production), (2) at least one of the units received no indemnity payment (which might indicate that production had been falsely assigned to that unit), and (3) the indemnity was among the largest paid. Our scope covered crop years<sup>1</sup> 1997 through 1999.

We found discrepancies in the production reported by 6 of the 20 producers in our sample. Based on the survey results, we decided to conduct audits of each of the six producers to resolve the questions about the discrepancies. Producer A is one of the six producers.

Audit fieldwork was performed from April through August 2000 at RMA's Davis Regional Office and the Rural Community Insurance Service office (insurance provider), both located in Davis, California, and the Sutter/Yuba FSA County office located in Yuba City, California.

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<sup>1</sup> A crop year is designated by the calendar year in which the insured crop is normally harvested.

## **AUDIT REPORT**

This audit was performed in accordance with generally accepted government auditing standards.

## **METHODOLOGY**

To accomplish our objectives and support our findings, we performed the following procedures:

- We compared form P-1's obtained from PMC to production amounts used by the insurance provider to calculate producer A's indemnities.
- We analyzed producer files obtained from the insurance provider to determine if producer A's indemnities were adjusted in accordance with approved procedures.
- We compared the producer's disaster application at the Sutter/Yuba FSA County office with loss records submitted to the insurance provider.
- We interviewed RMA and FSA officials, producers, handlers, and other persons to resolve production discrepancies.

## **FINDING**

For crop year 1998, producer A underreported production by 3.4 tons on one of eight insured units, resulting in an understated total production of 198.9 tons. This occurred because a third-party handler initially reported the production as another producer's. Although the handler subsequently informed the producer of the mistake, the producer did not correct his insurance claim. Because the 3.4 tons were not included in the calculation to determine the loss sustained, producer A was overpaid \$2,142 out of \$269,501 in total indemnity payments.

Prune Crop Provisions state that "the total production to count (in tons) from all insurable acreage on the unit will include all harvested and appraised production of natural condition prunes that grade substandard or better..."<sup>2</sup>

We attempted to reconcile the 1998 production that producer A had reported to the insurance provider with production data maintained by PMC. In PMC records, we found one form P-1 for producer A representing 3.4 tons of production for unit 102 that had not been reported to the insurance provider in 1998.

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<sup>2</sup> FCIC 98-036, section 11(c), dated 1998.

This form P-1 initially had an erroneous producer name and code because the handler (a third party who purchased the prunes from producer A) had misidentified the lot. Upon determining that an error had been made, the handler forwarded a correction request to the Dried Fruit Association. The Dried Fruit Association generated a revised production report that was mailed to the producer, handler, and PMC. Producer A told us that he called the handler to state that the production did not belong to him. The handler disagreed but the producer did not pursue the issue any further.

We reviewed the final settlement sheet that indicated the handler paid producer A for the 3.4 tons. Based on the handler's statement and settlement sheet, we concluded that the production belonged to producer A and that he was subsequently overpaid \$2,142 in indemnity payments. RMA should collect the overpayment from the insurance provider and instruct the insurance provider to update the producer's production history by correcting the 1998 production and yield for unit 102 (see exhibit B).

**Recommendation No. 1:**

Collect the overpayment of \$2,142 for unit 102 from the insurance provider.

**RMA Response:**

Following an internal review, RMA will request recovery of \$2,142. RMA's estimated completion date for completing the review is July 1, 2001.

**OIG Position:**

To accept management decision, we will need documentation that the insurance provider was billed for \$2,142.

**Recommendation No. 2:**

Instruct the insurance provider to correct the 1998 production and yield for unit 102.

**RMA Response:**

Following an internal review, RMA will correct the production record. RMA's estimated completion date for completing the review is July 1, 2001.

**OIG Position:**

We accept RMA's management decision on this recommendation.

**CONCLUSIONS AND REQUIRED AGENCY ACTIONS:**

Your March 19, 2001, response to the draft report has been included as exhibit C of this report. We accept your management decision for Recommendation No. 2. In accordance with Departmental Regulation 1720-1, we will be able to accept your management decision on Recommendation No. 1 when you provide us with documentation that the insurance provider was billed for \$2,142. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from the date of report issuance.

The Office of the Chief Financial Officer (OCFO), U.S. Department of Agriculture, has responsibility for monitoring and tracking final action for the finding and recommendations. Please note that final action on the finding and recommendations should be completed within 1 year of each management decision. Follow your agency's internal procedures in forwarding final action correspondence to OCFO.

We appreciate the assistance and cooperation of your staff during our audit.

/s/

JAMES R. EBBITT  
Assistant Inspector General  
for Audit

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**EXHIBIT A – SUMMARY OF MONETARY RESULTS**

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	The producer's indemnity claim did not include all production.	\$2,142	Questioned Costs – Recovery Recommended
<b>TOTAL MONETARY RESULTS</b>		<b>\$2,142</b>	

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**EXHIBIT B – CLAIM COMPUTATION WORKSHEET FOR UNIT 102**

-A- Unit No.	-B- APH Yield <sup>3</sup>	-C- Coverage Level <sup>4</sup>	-D- (B x C) Guarantee Per Acre <sup>5</sup>	-E- Acres	-F- (D x E) Unit Guarantee	-G- Production To Count <sup>6</sup>	-H- (F - G) Unit Loss	-I- Price Election <sup>7</sup>	-J- (H x I) Indemnity Amount <sup>8</sup>
<b>Indemnity Calculation Per Insurance Provider:</b>									
102	2.8	0.70	2.0	48.5	97.0	27.7	69.3	\$ 630	\$ 43,659
<b>Indemnity Calculation Per Audit:</b>									
102	2.8	0.70	2.0	48.5	97.0	31.1	65.9	\$ 630	\$ 41,517
<b>Difference:</b>						<b>3.4</b>			<b>\$ 2,142</b>

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<sup>3</sup> The actual production history (APH) yield is the sum of the annual yields divided by the number of years in the database. The approved APH may contain up to 10 consecutive crop years of actual and/or assigned yields.

<sup>4</sup> The coverage amount is the insurance provided by the crop insurance policy against insured loss of production or value, by unit, as shown on the producer's summary of coverage. Producer A elected a coverage level of 70 percent of the APH.

<sup>5</sup> The guarantee per acre is shown in tons of production.

<sup>6</sup> The total production to count (in tons) will include all harvested and appraised production of natural condition prunes that grade substandard or better and any production that is harvested and intended for use as fresh fruit.

<sup>7</sup> RMA established a price election of \$630 per ton for California prunes for crop year 1998.

<sup>8</sup> The indemnity amount is the reimbursement against loss or damage.



**EXHIBIT C – RMA'S WRITTEN RESPONSE TO THE DRAFT REPORT**



United States Department of Agriculture  
Farm and Foreign Agricultural Services  
Risk Management Agency

MAR 19 2001

TO: Ernest M Hayashi  
Director, Farm & Foreign Agricultural Division  
Office of Inspector General

FROM: Garland D. Westmoreland *for Lloyd H. King*  
Deputy Administrator for Risk Compliance

SUBJECT: OIG Audit Discussion Draft 05099-3-SF, Indemnity Payments to Prune  
Producers in California - Producer A

I have reviewed the subject report and agree with the findings and recommendations, and am declining the exit conference. The Director of Risk Management Agency's Western Regional Compliance Office (WRCO) will request copies of the audit working papers from your San Francisco office. Following a review, the WRCO will issue a finding to Rural Community Insurance Service requesting recovery of the \$2,142 and correction of the 1998 production record as identified in the audit. The estimated completion date for issuing the initial finding is July 1, 2001.

This office will keep you informed as to the progress of the corrective actions. Should you have any questions, please contact Rich Steffens at 202-720-0929.



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The Risk Management Agency Administers and Oversees  
All Programs Authorized Under the Federal Crop Insurance Corporation

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